



**DEMOCRACY CHALLENGES GLOBAL FINANCES
LESSONS FROM THE ICELANDIC EXPERIENCE**

**A Lecture
by
the President of Iceland
Ólafur Ragnar Grímsson
at the Charles University
on the Occasion of his State Visit to the Czech Republic
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Your Excellency
Distinguished scholars
Ladies and Gentlemen

The experience of my country, events in Europe and other parts of the world have in recent years brought to the forefront fundamental questions which many thought had somehow already been answered. The financial crisis has led us to a crossroads where we are faced with choices that history rarely brings to our table. The place of democracy in our societies has now become a burning issue, the will of the people challenging the power of financial markets.

For decades, the politics of Europe and the United States were dominated by theories on market economics, claiming they would serve better as guides to a successful future than the study of democratic dialogues within established political institutions. The smaller the role of the state – and consequently of politics – the more successful we would all become; the climax of this gospel being perhaps the statement by a British Prime Minister: “There is no such thing as society!”

Then, in the autumn of 2008, Iceland and other European countries were hit by a financial tsunami rooted in the fundamental fallacy that the market should reign supreme, that economics mattered more than politics.

Within a few months, the collapse of the banks in my country came to threaten the stability of our democratic system and the cohesion of our society. There were protests and riots; the police had to defend the Parliament and the Prime Minister's Office. The inherent balance of our well-established republic was suddenly in danger.

Iceland had been one of the most peaceful and harmonious societies in the world. Yet the failure of the financial system threatened the survival of our political and social order. It brought us close to collapse, a possibility which in the previous decades had been almost ignored by political and economic leaders alike.

Many seek solutions to the profound problems now facing Europe through economic and financial measures; almost every day the assertion is made that the supremacy of financial markets should continue to subject other dimensions of our societies to their needs.

Iceland can, however, provide significant guidelines, lessons of how economic measures and reforms did not by themselves succeed in bringing the nation out of the crisis. The political, social and judicial dimensions of our challenge were also important.

The government resigned in the early weeks of 2009, a minority cabinet was formed and parliamentary elections called to enable the nation to choose a new assembly. The leadership of the Central Bank and the Financial Supervisory Authority was replaced; a special prosecutor appointed to seek out those who had broken the law and within a year that Office had become the largest judicial entity in our country.

A special commission, headed by a Supreme Court judge, was established to examine the conduct of the banks, the operations of big corporations, the actions of ministers, the financial authorities, the media, the universities and indeed also the Presidency. Following up on this report, the new parliament voted into action a series of legislative and political reforms. A review of the Constitution was also set in motion; first by calling together a National Convention with members chosen randomly from the population, instructed to provide guidelines for reforms to be considered by a Constitutional Council, which then last year presented its comprehensive proposals for a new constitution.

All of this has enabled the nation to face its predicament, to gather strength and emerge from the crisis earlier and more effectively than anyone could have predicted. Consequently, in the discussions now taking place in Europe, against the background of dire forecasts about the futures of Greece, Spain, Portugal, Italy and others, some people have asked how has Iceland managed to come so far on the road to recovery.

Many reasons can be given: The devaluation of the currency; fiscal austerity and budgetary reforms; private banks were allowed to fail; taxes have been raised. But a significant part was also played by the political and judicial dimensions of our response. No other European country has dealt with its financial crisis by combining, as we have done, reforms of its economic, legislative, executive and judicial institutions. Our experience thus illustrates the crucial linkage between the economy and the state, between democracy and financial markets.

Which should be paramount in the resurrection of our societies: Democracy or finance, economics or politics? This is the question which the recent financial crisis has brought to the forefront. It can no longer be evaded. There is simply too much at stake, as we saw in a nutshell in Iceland and can almost every day be witnessed somewhere in Europe.

Twice events brought this truth squarely to my table. First in 2010 and then again last year, when I had to decide whether to submit the so-called Icesave laws to a referendum, to choose between the democratic right of the Icelandic people and the claim exerted by Britain and the Netherlands, supported by their European Union partners, that the interests of financial markets should be paramount in our decisions.

When all the complicated analysis had been swept away, my options were however crystal clear: The will of the people versus the force of financial markets.

To me it was self-evident that democracy had to prevail, even if all the governments of Europe, and powerful interests in my own country, favoured the financial stakeholders. When our nations come to such crossroads, politics in its classical sense must carry the day.

I believe similar choices will be with us for a long time to come, and recent events in Europe seem to confirm such a prediction. We are not only witnessing a fundamental shift of the tectonic plates of politics and economics, in the role of the state and the market, but also because information technology and social media are now empowering individuals to challenge established institutions in a way never seen before, bringing once again the classical notion, the will of the people, into the focus of our concerns.

In this respect, Iceland also provides a profound illustration, as did the crowds in Cairo and Athens. When the protests gained momentum in the autumn of 2008 and the centre of Reykjavík became every Saturday the venue of a street assembly, the Internet served as the rallying instrument. When, in December that year and in January 2009, rioters challenged the police, their mobile texting was the tool of action. When,

in the winter 2010-2011, the so-called barrel protests regularly reminded the authorities of their duties to the disadvantaged, the poor, the unemployed, Facebook provided the necessary contacts.

Demonstrations and protests which in previous decades would have required weeks and months of preparation involving networks of organisations are now an instant phenomenon; the new IT instruments have replaced more traditional means of political mobilisation.

This was also demonstrated when the wave of public opinion in favour of a referendum on the Icesave issue superseded the parliamentary process in our country. What would have taken weeks when my predecessors were in office now happened in a matter of days: a successful petition campaign conducted on the Internet, supported by almost a quarter of the Icelandic electorate, organised by a few individuals, without the involvement of political parties, trade unions or other associations, in fact without any old-style organised support.

This was people power in its purest form, challenging the actions of the Government and the Parliament, inducing the President to exercise his constitutional duty in favour of the democratic will of the people.

In January 2011 I was privileged to attend the DLD Conference in Germany where the leaders of Google, Facebook and other advanced IT and social media companies gathered to analyse where their products would take our societies.

There I witnessed one of the most remarkable discussions I have ever encountered, illustrating how a fundamental shift of power is now taking place, akin to the transformation a few centuries ago from feudal structures and absolute kings to parliaments and popular elections.

What we experienced in Iceland, what characterised the Arab Spring and was crucial to the Obama election, is in all likelihood just the beginning of a global political earthquake, a new era in which individuals are able to challenge not only institutions but even the state – their advantage also derived from how the old structures still follow slow and deliberate processes, whereas the new social media allow a multitude to assemble quickly or demonstrate opposition even before the President has finished his speech.

The DLD dialogue in Munich, the experiences in Iceland and recent events in other parts of the world, have convinced me that the fast pace of change already created by the new social and IT media has gained such momentum that actions within the more traditional institutions of power could, in many instances, soon become almost a sideshow.

I know this is a strong statement, and a strange conclusion coming from someone who has spent a large part of his active life within those same institutions: the Parliament, the Cabinet, the Ministries and now the Presidency.

But if I am right – and let us remember that these revolutionary IT technologies are still in their early stages – there must be a fundamental shift in the focus of our democracies, a shift towards the cutting edge of modern societies, where the public will emerge and is magnified without any institutional framework, where the individual can challenge the state as never before, where technology can transform our democratic systems more profoundly than any institutional decision-making, the will of the people once again becoming the core of our concerns.